

AR17



OAKWOOD
PETROLEUMS LTD.

ANNUAL REPORT 1975

**ANNUAL MEETING
OF SHAREHOLDERS**

Annual General Meeting of
Shareholders of Oakwood
Petroleums Ltd. will be held in the
Banff Suite
at the Calgary Inn
in the City of Calgary, Alberta
at the hour of 10:00 A.M.,
Local Time, August 13, 1976
A formal Notice of Meeting
of Shareholders together with
an instrument of Proxy and
Information Circular is being
mailed to shareholders together
with this report.

DIRECTORS

- * DALLAS E. HAWKINS II, *Calgary, Alberta*
President of the Company
Chairman of the Board of
American Eagle Petroleum Ltd.
- GERHARD KASDORF, *Calgary, Alberta*
Vice-President of the Company and
President of
American Eagle Petroleum Ltd.
- * BRIAN G. McCOMBE, *Calgary, Alberta*
Partner, McCombe, Cameron & Cormie
- BRIAN S. EKSTROM, *Calgary, Alberta*
Treasurer of the Company
Treasurer of American Eagle
Petroleum Ltd.
President of Brian Ekstrom
Management Ltd.
- EDWARD G. McMULLAN, *Calgary, Alberta*
President of E.G. McMullan Ltd.
- * JACK WAHL, *Calgary, Alberta*
Chairman of the Board and
Chief Executive Officer of
Great Basins Petroleum Co.
- R. ROSS HAMILTON, *Calgary, Alberta*
President of Great Basins Petroleum Co.
President of Scoteire Exploration Ltd.

* Members of the Executive Committee.

OFFICERS

DALLAS E. HAWKINS II, *President*
GERHARD KASDORF, *Vice-President*
BRIAN G. McCOMBE, *Secretary*
BRIAN S. EKSTROM, *Treasurer*
GERTRUDE V. KERR, *Assistant Secretary*

HEAD OFFICE

220 One Calgary Place
330 - 5th Avenue S.W.
Calgary, Alberta T2P 0L4

SUBSIDIARY COMPANIES

Marwood Petroleum Ltd.
Bayview Oil & Gas Ltd.
Flamingo Oils Limited (N.P.L.)
Orient Investments Ltd.
Oakwood Petroleum Corporation
Oakwood Petroleums (U.K.) Limited
Oakwood Petroleums (Ireland) Ltd.
Oakwood Petroleums Italiana S.p.A.
Lochaber Oil Corporation Ltd.
Bueno Oils Ltd.
Coronado Consultants Ltd.

SHARES LISTED

The Toronto Stock Exchange

AUDITORS

Thorne Riddell & Co.
Calgary, Alberta

REGISTRAR

Canada Trust Company
Calgary, Alberta

TRANSFER AGENTS

Canada Trust Company, *Calgary, Alberta*
and *Toronto, Ontario*



OAKWOOD PETROLEUMS LTD.

AND SUBSIDIARY COMPANIES

our 50th year of operation

Incorporated under the laws of Canada on November 28, 1925

Capital: 5,000,000 shares without nominal or par value, of
which 3,643,781 shares are presently issued.

STATISTICS

	1975	1974	Increase (Decrease)
NET PRODUCTION			
Oil Production, barrels	161,182	173,214	(6.9%)
Daily average, barrels	442	475	
Gas Production, MCF	1,317,963	1,187,996	10.9%
Daily average, MCF	3,611	3,255	

SALES & EARNINGS


Crude Oil and Natural Gas Sales	\$1,428,553	\$1,060,939	34.6%
Funds provided by Operations	484,966	269,948	79.7%
Per Share	13.3¢	7.4¢	
Loss for the year	126,596	798,172	
Per Share	3¢	22¢	

LAND HOLDINGS

Oil & Gas Lease & Permit Acres			
Gross acres	1,042,102	846,776	
Net acres	163,053	116,733	
Mining Claims & Exploration			
Gross acres	65,898	65,898	
Net acres	6,451	6,451	

NET RESERVES

Oil and Condensate, barrels			
Proven	1,016,000	1,072,000	
Probable	320,000	621,000	
Total	1,336,000	1,693,000	
Natural Gas, MCF — proven and probable ..	28,490,000	24,150,000	
Indicated Sandhills Gas Reserves, MCF			
(net of royalty)	103,000,000	103,000,000	



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OAKWOOD PETROLEUMS LTD.

AND SUBSIDIARY COMPANIES

DIRECTORS' REPORT TO THE SHAREHOLDERS:

This year, the company is using a new form for its Annual Report, hoping to make it more informative and more readable. We are publishing in effect two sections of the 1975 report:

- A. This section which includes all the information required by various laws and regulations, and
- B. A Profile of Oakwood, giving you a look at the people who are your employees and the jobs they do. In my opinion, you, as owner, have an exceptionally well qualified and devoted staff.

Again, departing from the normal, we have included the full text of an in-depth evaluation of your company's assets done by an independent evaluator. Too often management and shareholders alike suffer from vague, self-serving words and phrases contained in our only annual communication "The Annual Report". We would like to be able to discuss in person with each shareholder, (1) what we have done and (2) what the results and prognosis are. Failing that, we submit herewith management's report for the year ending December 31, 1975, and ask that, with this, you read "Oakwood Petroleum Ltd. — A Profile" which is also at hand.

During 1975, there were two significant developments within the Company. They were:-

- A. Completion of an agreement with Chevron Standard providing for both exploration of and development financing of Oakwood's interest in Block 3/7 of the North Sea.
- B. Development and Financing of the Matziwin Gas area production, including 28 wells with the necessary gathering and compression facilities.

Beyond the events which we can influence, we have had the benefit of a marked reversal in Federal and Provincial policy. It would appear that, having gone full-bore in an attempt to destroy Canadian

oil and gas production and exploration, that both government levels have suddenly regained their senses, and have been trying, really trying, to undo the damage. Whether or not they will be able to succeed, only time will tell. As far as your management is concerned, the immediate future, at this point in time, looks excellent from the political standpoint.

Exploration during 1975 was not outstanding, but did produce a few gains, the benefits of which will show up in the 1976 financial statements. Elsewhere in this report, you will find more detailed description of our major activities and of our financial positions.

Company policy over 1976 and most of 1977 will be to maximize cash flow and development of existing properties. In addition, acquisitions, for cash or cash equivalents, will be sought. No appreciable dilution in common stock will be considered.

I draw your attention to the forecast of 1976 financial data which is contained in the Hugo Report, a part of "Oakwood Petroleum Ltd. — A Profile". Management feels that the numbers contained in that report are conservative.

During the year the Board of Directors received the resignation of George W. Oughtred from the Board. Mr. Oughtred has been of valuable help to the company and his resignation was accepted with regret. Mr. Oughtred's position on the Board has been filled by the appointment of Gerhard Kasdorf, Vice President of Oakwood and President of American Eagle Petroleum Ltd.

My thanks are again offered to the shareholders and staff for their continued belief in our future, which I enthusiastically share.

On behalf of the Board of Directors

DALLAS E. HAWKINS II
President

July 9, 1976



OPERATIONS

MATZIWIN-GEM-VERGER AREA, ALBERTA

Over the past 18 months your company has been very active in the drilling and placing on production of gas wells producing from the Medicine Hat and Milk River Zones.

The producers in the area, including Oakwood, entered into an agreement with the Matziwin Gas Company, to provide the plant facilities for the processing of the gas for each producer's account.

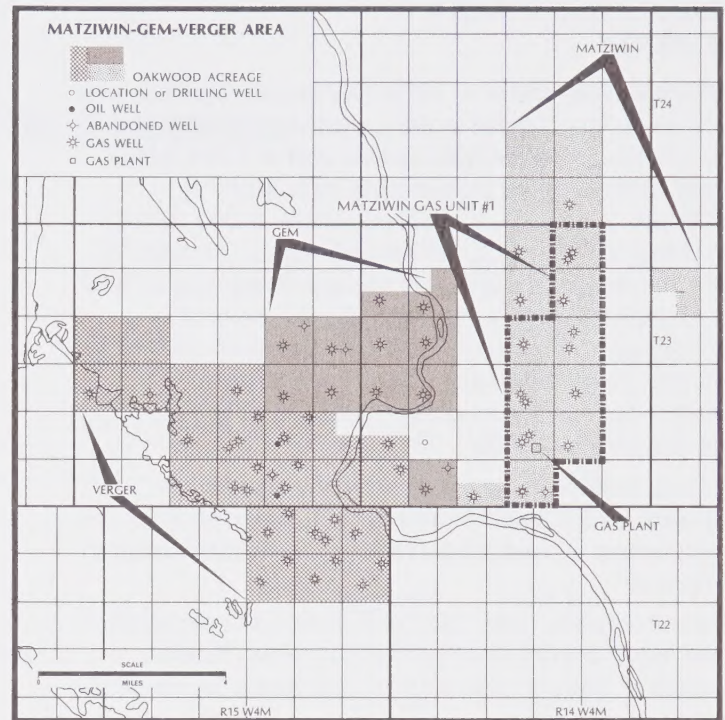
The Matziwin Gas Plant went on stream April 9, 1976, and is presently processing approximately 5.5 million cubic feet per day of gas from a total of 25¼ sections. Oakwood's interest in the plant is 40.56% and approximately 2.2 million cubic feet per day of gas is processed through the plant for the account of Oakwood.

In addition to the above, Oakwood, through its wholly-owned subsidiary, Orient Investments Ltd., receives for its account proceeds from production attributable to its 5% working interest from the Verger prospect, as shown on the plat. There are 28 potential gas wells, 20 of which are presently producing, and two oil wells. The operator has proposed that 17 additional Medicine Hat gas wells be drilled during July and August of 1976.

Effective January 29, 1976, Oakwood will have, subject to the approval of the shareholders, increased its interest in the Matziwin area through the purchase of Coronado Consultants Ltd. This purchase has increased Oakwood's interest in the Matziwin Unit to 48.6% and in the non-unitized area to working interests ranging from 25% to 100%.

Oakwood's interest in the Gem area is a 32.5% — 43.33% working interest in a total of 5,341 gross acres. There presently exists in the Matziwin-Gem area a total of 24 Medicine Hat-Milk River gas wells, three of which are presently shut-in pending unitization, two Viking and one Glauconitic well producing in the Matziwin Gas Unit.

In that the Milk River and Medicine Hat zones are indicated to be productive over the entire area with the possibility of the Belly River Zone also being productive in certain areas, it is anticipated that additional drilling will be carried out in the very near future as wells are required in order to maintain the maximum plant capacity over the entire Matziwin-Gem-Verger area.



PEMBINA AREA, ALBERTA

Early in 1976, Oakwood, together with Conventures Limited, Atco Gas & Oil Ltd., and American Eagle Petroleum Ltd. as Operator, entered into a Farmout Option Agreement with Amoco Canada Petroleum Ltd. for the drilling of a Cardium well on a 9-section block in T. 48, R. 11, W5M. Under the Farmout Option Agreement, the farmees earned a 100% working interest in 8 sections subject only to a 10% gross overriding royalty, and an option to earn a like interest in one other section, where there exists one producing Cardium oil well. Oakwood's interest in the lands earned is a 20% working interest. The commitment well located in Lsd. 16-27-48-11 W5M was drilled and completed as a Cardium oil well.

To the date of this report, four wells have been drilled on the prospect, resulting in three Cardium oil wells and one Blairmore gas well, with an additional four locations to be drilled within the very near future. The Cardium formation in 8 of the 9 sections under the Amoco farmout has been unitized, effective May 21, 1976. It is anticipated to have the wells placed on production some time early in the summer of 1976.

SADDLE LAKE AREA, ALBERTA

Effective November 1, 1975, Oakwood, together with partners, purchased a 50% working interest in approximately 12,000 acres and a 7.5% gross overriding royalty, convertible to a working interest at payout, in approximately 9,280 acres, located in Twps. 57, 58 and 59, Rges. 11 and 12 W4M. Oakwood's share of the purchase was 20% of the total interest purchased. At the time of purchase there was a total of 15 shut-in gas wells on the properties and since that time an additional 2 wells have been drilled and are standing as shut-in gas wells.

The properties were very recently placed on stream, and it is estimated that the revenue from the properties should add substantially to Oakwood's income.

Your company feels that the Saddle Lake acquisition has been a very worthwhile purchase. It will however, require some additional funds for development of the area.

OTHER DRILLING AND EXPLORATION

Including certain of the areas reported elsewhere in this report, your Company participated in the drilling of a total of 70 wells in the calendar year 1975, which resulted in 58 gas wells, 3 oil wells and 9 abandoned. The activity on previously held prospects is as follows:

Gladys Area, Alberta	one potential gas well
Abee Area, Alberta	two completed gas wells one abandoned
Bigbend - Flatbush Area, Alberta	one completed gas well
Midale Area, Saskatchewan	one completed oil well
Livermore Area, California	one completed oil well one abandoned

Additional drilling has also been carried out on the Bullhook prospect in Montana where Oakwood participated as to its 5% working interest.

A new prospect participated in during 1975, and early 1976, was the Roundhill prospect located in Twp. 48, Rge. 19 W4M, in which Oakwood has a 25% working interest, where the commitment well was abandoned. The abandoned well by no means condemned the prospect and the group agreed to farmout the drilling of the option well on a no cost-

no interest basis to Oakwood and its partners and thereby reduced the original Oakwood group's interest in the prospect area by 50%. The option well has now been drilled and completed as a Viking gas well, which earned additional acreage in the prospect area under the original Farmout Agreement. It is the intention of Oakwood to participate in the second option well, to be drilled shortly, as to its 12.5% working interest, the location of which is offsetting an indicated Viking gas well.

Since January 1, 1976, Oakwood also participated in a prospect in the Lobstick area, located in Twp. 52, Rge. 13 W4M, where two wells have been drilled — one stands as a potential oil well and one was abandoned, in the Lonebutte prospect located in Twp. 27, Rge. 16 W4M as to an 11.25% working interest and the Cessford prospect in Sec. 20, Twp. 27, Rge. 14 W4M as to an 11.25% working interest. One well in Montana was drilled and abandoned.

FINANCIAL HIGHLIGHTS

1975 was a year of continued growth for the Company — with net oil and gas sales showing a 35% increase over the previous year. Cash flow from oil and gas production operations exceeded the million dollar mark — totalling \$1,108,000 in 1975 as compared to \$788,000 in 1974. Net cash flow per share showed another substantial increase — to 13.3¢ per share, up from 7.4¢ in 1974. This growth was primarily the result of increased prices for crude oil and natural gas.

Your Company continues to maintain its 28% equity position in American Eagle Petroleum Ltd., — which company anticipates substantial growth in 1976 earnings as development work on its properties continues and production revenue commences.

Company management anticipates that 1976 will be a year of even more significant growth in operations and earnings — as a result of:

- (a) Production revenue which commenced in April 1976 from the Matziwin Verger Area; and in June 1976 from the Saddle Lake Area.
- (b) Production revenues derived from corporate acquisitions in early 1976 — Coronado Consultants Ltd. in January 1976, and Lochaber Oil Corporation Ltd. and its operating subsidiary — Bueno Oils Ltd., in March 1976.



OAKWOOD PETROLEUMS LTD.
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF EARNINGS

YEAR ENDED DECEMBER 31, 1975

	<u>1975</u>	<u>1974</u> (note 2)
REVENUE		
Sale of oil and gas	\$1,428,553	\$1,060,939
Interest and other	<u>5,619</u>	<u>10,228</u>
	<u>1,434,172</u>	<u>1,071,167</u>
EXPENSES		
Field operating	320,461	272,893
Lease rentals on non-producing properties	48,100	33,307
Exploration	67,629	17,738
Engineering and consulting	53,954	55,580
General and administrative	311,426	260,149
Interest on long-term debt	240,967	161,552
Depreciation and depletion	328,494	328,781
Surrender of non-producing properties	—	551,435
Share of loss of American Eagle Petroleum Ltd. (note 4)	<u>128,898</u>	<u>187,904</u>
	<u>1,499,929</u>	<u>1,869,339</u>
Loss before income taxes	65,757	798,172
Provision for (recovery of) income taxes		
Provincial royalty tax credits	(93,331)	—
Deferred	<u>154,170</u>	<u>—</u>
	<u>60,839</u>	<u>—</u>
LOSS	<u>\$ 126,596</u>	<u>\$ 798,172</u>
LOSS PER SHARE, based on weighted average number of shares outstanding during year	<u>\$0.03</u>	<u>\$0.22</u>



ASSETS

8

LIABILITIES

	<u>1975</u>	<u>1974</u> (note 2)
CURRENT LIABILITIES		
Bank advances	\$ —	\$ 115,898
Accounts payable and accrued liabilities	1,076,124	686,989
Notes payable	—	197,500
Prepayments under gas sales contracts	50,200	23,621
Current maturities on long-term debt (note 5)	—	435,000
	<u>1,126,324</u>	<u>1,459,008</u>
PREPAYMENTS UNDER GAS SALES CONTRACTS	151,853	181,291
LONG-TERM DEBT (note 5)	<u>3,046,265</u>	<u>1,009,459</u>
DEFERRED INCOME TAXES	<u>154,170</u>	<u>—</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK

Authorized		
5,000,000 common shares without par value		
Issued		
3,643,781 shares	8,106,570	8,106,570
CONTRIBUTED SURPLUS	<u>768,152</u>	<u>768,152</u>
	8,874,722	8,874,722
DEFICIT	<u>(5,627,603)</u>	<u>(5,501,007)</u>
	<u>3,247,119</u>	<u>3,373,715</u>

<u><u>\$7,725,731</u></u>	<u><u>\$6,023,473</u></u>
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OAKWOOD PETROLEUMS LTD.

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF DEFICIT

YEAR ENDED DECEMBER 31, 1975

	1975	1974
DEFICIT OF BEGINNING OF YEAR		
As previously reported	\$5,380,579	\$4,702,835
Adjustment of share of loss of American Eagle Petroleum Ltd. (note 2)	120,428	—
As restated	5,501,007	4,702,835
Loss	126,596	798,172
DEFICIT AT END OF YEAR	<u>\$5,627,603</u>	<u>\$5,501,007</u>

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 31, 1975

	1975	1974
		(note 2)
WORKING CAPITAL DERIVED FROM		
Operations	\$ 484,966	\$ 269,948
Proceeds on sale of fixed assets	5,350	40,534
Production bank loans, net of payments	2,037,806	320,248
Repayment of receivables and advances	68,904	—
Issue of shares		
For properties	—	245,000
For shares of American Eagle Petroleum Ltd.	—	226,680
On conversion of debentures	—	38,350
To employees under share purchase plan	—	133,000
	<u>2,597,026</u>	<u>1,273,760</u>
WORKING CAPITAL APPLIED TO		
Additions to property and equipment	1,398,494	1,940,422
Purchase of shares of American Eagle Petroleum Ltd.	8,095	271,700
Conversion of debentures, net of financing costs	—	38,350
Repayment of debentures	1,000	—
Reduction of prepayments under gas sales contracts	29,438	8,258
Receivable under share purchase plan	—	133,000
Receivables and advances	—	138,396
	<u>1,437,027</u>	<u>2,530,126</u>
INCREASE (DECREASE) IN WORKING CAPITAL		
(note 5)	1,159,999	(1,256,366)
WORKING CAPITAL (DEFICIENCY) AT BEGINNING OF YEAR	<u>(1,133,862)</u>	<u>122,504</u>
WORKING CAPITAL (DEFICIENCY) AT END OF YEAR	<u>\$ 26,137</u>	<u>\$(1,133,862)</u>



OAKWOOD PETROLEUMS LTD.

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1975

1. ACCOUNTING POLICIES

(a) Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries all of which are wholly-owned. The excess of the consideration paid for shares of purchased subsidiaries over the net book value of the assets acquired has been included in fixed assets in the consolidated balance sheet and is being amortized on the same basis as such assets.

(b) Property and Equipment

The Company follows the practice of capitalizing the acquisition costs of both producing and non-producing properties and charging the costs to earnings if the property is subsequently surrendered. The cost of drilling a productive well is capitalized and the cost of a non-productive well is charged to earnings when the well is determined to be dry. The costs of producing leases and development thereon are amortized using the unit of production method based upon estimated quantities of oil and gas as determined by the Company's engineers.

Equipment is depreciated on a straight-line basis over its estimated useful life.

(c) Income Taxes

The Company follows the tax allocation method of accounting and accordingly provides for deferred income taxes to the extent that income taxes otherwise payable are eliminated by claiming exploration and development costs and capital cost allowances in excess of the related depletion and depreciation reflected in the accounts.

2. RESTATEMENT OF PRIOR YEAR'S CONSOLIDATED FINANCIAL STATEMENTS

The 1974 consolidated financial statements have been restated to give effect to an adjustment to the Company's share of loss of American Eagle Petroleum Ltd. This restatement resulted in an increase in such share of loss for the year of \$120,428 and a corresponding increase in the reported loss for that year of \$120,428 (\$.03 per share).

Certain other 1974 figures have been reclassified to conform to the basis of presentation adopted for 1975.

3. RECEIVABLE UNDER SHARE PURCHASE PLAN

During 1974, 70,000 shares were issued to three officers of the Company under the terms of a share purchase plan. The purchase price, \$133,000, is payable prior to March 21, 1977 (extended during the year from March 21, 1976) and is secured by the issued shares which are held in trust pending payment. Shares which remain unpaid at March 21, 1977 are to be returned to the Company in full settlement for any amounts then owing.

4. INVESTMENT IN AMERICAN EAGLE PETROLEUMS LTD.

The Company follows the equity basis of accounting for its investment in American Eagle Petroleum Ltd. whereby the investment is carried at cost less the Company's share of the earnings or losses of American Eagle since the date of acquisition. The excess of the consideration paid over the Company's share of the net book value of the assets is being amortized on the same basis as the related assets of that company. At December 31, 1975, the Company owned 1,190,323 shares (approximately 28%) of American Eagle.

	1975	1974
Shares, at cost	\$1,410,252	\$1,402,157
Share of losses (note 2)	316,802	187,904
	<u>\$1,093,450</u>	<u>\$1,214,253</u>

The shares had a market value of \$387,000 (1974 - \$352,000) at December 31, 1975. While, in the opinion of management the difference between carrying value and market value does not reflect a permanent impairment in the value of the investment and the Company has no immediate plans to dispose of the shares, it is not possible to determine the amount that may ultimately be realized on disposal of this investment.

5. LONG-TERM DEBT

	1975	1974
Production bank loans, less amounts included in current maturities in 1974	\$3,046,265	\$1,008,459
7% convertible subordinated debentures	—	1,000
	<u>\$3,046,265</u>	<u>\$1,009,459</u>

The production bank loans are evidenced by demand promissory notes and are secured by petroleum and natural gas properties, accounts receivable and shares of American Eagle Petroleum Ltd. The loans are repayable out of future production proceeds and, accordingly, are not expected to require the use of existing working capital; therefore in 1975, no portion of the loans have been reclassified to current liabilities. The estimated principal payments on long-term debt for the next five years are as follows: 1976 — \$752,000; 1977 — \$718,000; 1978 — \$681,000; 1979 — \$660,000; 1980 — \$235,000.

6. SUBSEQUENT EVENTS

Subject to the obtaining of approvals from regulatory authorities the Company has subsequent to December 31, 1975:

- (a) acquired all the issued capital stock of a private company (controlled by an officer and director of the Company) which owns 595,334 shares of the Company and certain petroleum and natural gas properties, consideration being 1,376,004 shares of the Company;
- (b) acquired all of the issued capital stock of a private company engaged in oil and gas exploration, development and production for a cash consideration of \$3.5 million. This acquisition was financed by internal sources and by the assumption of production bank loans totalling \$1.3 million;
- (c) arranged to borrow \$600,000, repayable in 60 monthly installments with interest at bank prime lending rates plus 1%. In addition the lender is to receive a fixed royalty from certain oil and gas properties earning \$165,000 over the next 10 years; and
- (d) arranged to issue \$600,000 9% debentures, callable after July 31, 1977 in certain circumstances and which require annual sinking-fund payments of \$150,000 commencing in 1979. The debentures are convertible into common shares of the Company at prices ranging from \$1.15 to \$2.25 to January 31, 1982.

7. STATUTORY INFORMATION

During 1975 the Company and its subsidiaries paid no remuneration to the Company's eight directors in their capacity as directors and paid \$91,730 to three officers of the Company, two of whom are also directors.

AUDITORS' REPORT

To the Shareholders of
Oakwood Petroleum Ltd.

We have examined the consolidated balance sheet of Oakwood Petroleum Ltd. and its subsidiary companies as at December 31, 1975 and the consolidated statements of earnings, deficit and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to the ultimate recovery of the investment in American Eagle Petroleum Ltd. as referred to in note 4 to the consolidated financial statements, these consolidated financial statements present fairly the financial position of the Companies as at December 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
May 28, 1976

THORNE RIDDELL & CO.
Chartered Accountants

Except as to the information contained in note 6(a) to the consolidated financial statements as to which the date is July 19, 1976.



OAKWOOD ANNUAL REPORT 1975